

Microenterprise Versus The Labor Market Among Low Income Workers

Cynthia K. Sanders, Ph.D.
Ph.D., Washington University, 2000
St. Louis, Missouri

Statement of the Research Problem

Microenterprise assistance programs have gained rapid attention in the United States in recent years as one strategy to promote the economic well-being of poor households. The number of programs in the United States has risen steadily (Severens & Kays, 1997) and federal support for microenterprise initiatives has continued to expand (Meyerhoff, 1997). Among other things microenterprise has been proposed as a strategy for promoting job creation and self-sufficiency (Benus, Johnson, Wood, Grover & Shen, 1995; Raheim, 1997), as an anti-poverty strategy (Balkin, 1989; Banerjee, 1998; Clark & Huston, 1993) and as an alternative to welfare (U.S. DHHS, 1990).

Research suggests that microenterprise may increase economic opportunity and improve economic outcomes for a sub-group of the poor. While research is growing and we are beginning to get a picture of the possible outcomes of microenterprise, there are a number of limitations in the current research. With few exceptions (Benus, et. al., 1995), most studies are cross-sectional in nature, lack control or comparison groups, and are primarily descriptive. Because research is limited, it is unclear whether microenterprise assistance programs are resulting in improved economic well-being that would not have happened otherwise.

This dissertation research builds on current microenterprise research and examines a number of purported economic outcomes. These include: 1) income, 2) poverty status, 3) asset accumulation (homeownership) and 4) welfare use. Comparisons are drawn between three groups: 1) Low-income microentrepreneurs who participated in one of seven U.S. microenterprise programs; 2) low-income self-employed not attached to microenterprise assistance programs; and 3) low-income workers not engaged in self-employment. Whether or not programs are having a significant affect is examined in this study.

Research Background Questions/Hypotheses

Research questions and hypotheses proposed in this study are guided by a number of economic theoretical perspectives that suggest why individuals enter self-employment and the extent to which economic outcomes may differ by employment sector chosen. While some theories suggest people enter self-employment because their earning capacity is higher (e.g. human capital theory, matching theory) other theories (e.g. compensating

differential theory) suggest that the non-pecuniary aspects of self-employment (e.g. independence, flexibility, and improved self-concept) may compensate for lower wages in self-employment compared to wage employment.

Two central research questions guided this study: 1) Does microenterprise improve the economic well-being of poor families over time? 2) Do economic well-being outcomes differ between low-income microentrepreneurs (program participants), low-income self-employed (non-participants), and low-income wage workers?

Methodology

This study uses a quasi-experimental research design, with matched comparison groups and repeated measures. The use of matched comparison groups allows a look at what happened with the use of microenterprise assistance programs that might not have happened without them.

Sample: Secondary data analysis for the three comparison groups was obtained from two sources: 1) Data from the Aspen Institute's Self Employment Learning Project (SELP) are used for the program participation group. Data come from entrepreneurial surveys administered between 1991 and 1995. Data utilized in this study include data from 1991, the first year of the survey, and 1995, the last year of the survey. Data represent 80 low-income participants of seven microenterprise assistance programs in the United States. 2) Two matched comparison groups: low-income self-employed not attached to microenterprise assistance programs (non-participants, N=109); and low-income wage workers not engaged in self-employment (N=242) are drawn from the Panel Study of Income Dynamics (PSID).

PSID is an on-going longitudinal survey of 5000 families, begun in 1968, conducted by the Survey Research Center at the University of Michigan (Hill, 1992). PSID was chosen, above other national survey data sets, because families were surveyed over the same time period as microenterprise program participants (1991 through 1995). At the time of the study, early release data (rather than final release data) for 1995 were available and used in this study.

Data are examined at two points in time, 1991 and 1995, with an emphasis on examining change over time between groups. The total sample size used in this study is 431.

Matching Process and Control Variables: Low-income (150% or below poverty line in 1991) self-employed and wage workers were identified in the PSID and matched with SELP program participants. The two comparison groups are matched as closely as possible to the SELP group on 1991 data. Matching focuses on six demographic factors: age, race, gender, marital status, presence of young children, and education. Matching is carried out in the aggregate (Freeman & Rossi, 1993). That is, individuals are not matched one to one on every factor, but the overall distributions on each variable are

made to correspond between groups. Significant differences found between groups on any of these factors are included in analyses as a covariate.

In addition to demographic characteristics, change in geographic unemployment rate is included as a control variable. To control for possible differences in economic context, the change in percent unemployment rate between 1991 and 1995 is included.

Dependent Variables: Several indicators of economic well-being are examined as dependent variables in this study: family income in 1991 and 1995; real change in family income between 1991 and 1995; family income from the business in 1991 and 1995; real change in family income from the business between 1991 and 1995; family income to needs ratio in 1991 and 1995; change in income to needs ratio between 1991 and 1995; poverty status indicating whether a family is living at and below or above 150% of the poverty line; homeownership in 1991 and 1995; and welfare use in 1991 and 1995 as indicated by AFDC use and Food Stamp use.

Data Analysis: Univariate descriptive statistics are used to profile the study sample and each of the three comparison groups. Bivariate analysis, including t-tests, chi-square, and analysis of variance are used to examine differences both within and between groups at time one (1991) and time two (1995). Differences between groups on demographic characteristics and economic outcome measures are examined. Finally, changes in economic outcomes over time between the three comparison groups are examined through the use of analysis of variance, covariance, OLS regression, and logistic regression.

Summary of Results

Findings reveal that all three groups made significant gains in economic well-being over time. Contrary to expectations, the three groups did not vary much on economic outcomes over time. Results also indicate greater household economic gains among whites, households without young children, younger workers, and more educated workers. Gender is predictive of growth in income from the business, with men experiencing larger gains.

While findings of this study are not widely generalizable, the results cast some doubt on the effectiveness of microenterprise assistance programs in the United States. The findings suggest that there may be little happening in the presence of microenterprise programs that would not have happened without them. On the other hand, participants in microenterprise assistance programs do not appear to have worse economic outcomes at the household level than wage laborers or other self-employed individuals. These conclusions are stated with some caution, as the sample used in this study is not widely generalizable to all participants of microenterprise assistance programs, low-income self-employed or low-wage workers. Additionally, this study examined only economic outcomes. Research suggests there may also be important psychosocial outcomes such as improved self-esteem and sense of control (Raheim, 1996; Raheim & Alter, 1998),

empowerment (Raheim & Bolden, 1995; Servon, 1996) and flexibility to care for family (Servon, 1997).

Utility for Social Work Practice

It is within the realm of social work to initiate, pursue and evaluate approaches to economic opportunity for the poor. Because resources to help the poor are limited, community practitioners and policy makers must meet the challenge of identifying interventions that will empower as well as improve the economic well-being of poor families.

The overall result of this study is that groups do not vary much on the economic outcomes examined. The fact that all low-income groups are doing about the same suggests a need for policy initiatives that support all low-income workers regardless of the job sector in which they are employed. Anti-poverty initiatives should expand with greater provisions in supplemental income supports, earned income tax credits, living wages, no and low cost child care, transportation and health benefits. If the goal of microenterprise initiatives is to move poor households out of poverty, the costs associated with microenterprise assistance programs should be carefully examined and weighed in relationship to other employment programs, poverty initiatives and social safety net programs.

Policies are needed to facilitate the ability of low-income entrepreneurs to draw more income from their businesses. Policies might include more forgiving tax policies. On the basis of equity, low-income workers who wish to enter into self-employment should have a means of acquiring start-up capital. However, initiatives aimed at wide scale poverty alleviation are cautioned. Facilitation of access to capital through credit should be balanced with initiatives to promote savings among the poor.

Social workers interested in community development as well as practitioners concerned with work opportunities for their clients should know about microenterprise as one work alternative. Practitioners should, at a minimum, be aware of local microenterprise programs and welfare to work programs that include self-employment options. While the decision to pursue self-employment is ultimately a decision of the client, social workers have an ethical responsibility to make certain that such decisions are made with as much information as possible. Practitioners should know about the strengths and limitations of microenterprise programs. They should also know that many members of disadvantaged groups, including the poor, women, and people of color, can and do run successful small businesses.

Guidelines for careful selection of potential microentrepreneurs should also be explored. Such guidelines should not be in place to discourage individuals who are interested in self-employment from applying to programs, but to limit wide scale participation that may do little to help many low-income workers. A realistic understanding about the potential of microenterprise assistance programs will help the

competent practitioner better serve their clients. Social workers are and should play a larger role in the delivery of economic services to the populations we serve. This will involve becoming more proficient in working with community development agencies and financial institutions such as banks and credit unions.

Social workers should remain active in understanding and advocating for resources to support the poor and insuring that those limited resources are used as effectively and efficiently as possible. Microenterprise programs are likely to be only a small part of that support.

References

- Balkin, S. (1989). Self-employment for low income people. New York: Praeger.
- Banerjee, M.M., (1998). Microenterprise development: A response to poverty. In Sherraden, M.S., & W.A. Ninacs (Eds.), Community development and social work, New York: Hayworth.
- Benus, J.M, Johnson, T.B., Wood, M., Grover, N., & Shen, T.(1995). Self-Employment programs: A new reemployment strategy, Final Report of the UI Self-Employment Demonstration. Unemployment Insurance Occasional paper 95-4. U.S. Department of Labor.
- Clark, P. & Huston, T. (1993). Assisting the Smallest Businesses: Assessing Microenterprise Development as a Strategy for Boosting Poor Communities, Self-Employment Learning Project, The Aspen Institute, An Interim Report, August 1993.
- Hill, M.S. (1992). The panel study of income dynamics: A users guide. Newbury Park: Sage Publications.
- Meyerhoff, D. (1997). Federal funding opportunities for microenterprise programs. Journal of Developmental Entrepreneurship 2 (2), 99-109.
- Raheim, S., & Alter C.F. (1998). Self-employment as a social and economic development intervention for recipients of AFDC. Journal of Community Practice: Organizing, Planning & Change 5 (1/2), 41-61.
- Raheim, S. (1996). Microenterprise as an approach for promoting economic development in social work: Lessons from the self-employment investment demonstration., International Social Work, 39, 69-82.
- Raheim, S., & Bolden, J. (1995). Economic empowerment of low-income women through self-employment programs., AFFILIA, 10 (2), 138-154.
- Servon L. (1997). Microenterprise Programs in the U.S. Inner Cities: Economic development or social welfare? Economic Development Quarterly, 11 (2), 166-180
- Servon, L. (1996). Microenterprise Programs and Women: Entrepreneurship as Individual Empowerment., Journal of Developmental Entrepreneurship 1 (1), 31-55.
- Severens, C.A., & Kays, A.J. (1997). The 1996 Directory of U.S. Microenterprise Programs. Washington D.C.: Self-Employment Learning Project (SELP), The Aspen Institute.

U.S. Department of Health and Human Services, Office of Community Services,
Family Support Administration (1990). Demonstration Partnership Program: Summary
and Findings, FY, 1987. Washington D.C.: Government Printing Office.